

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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Northwood-Kensett Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2007 Election)		
Larry Hovey	President	2008
John Anderson	Vice President	2007
Don Pangburn	Board Member	2007
Cindy Pangburn	Board Member	2008
Keith Braun	Board Member	2009

Board of Education

(After September 2007 Election)

Larry Hovey	President	2008
John Anderson	Vice President	2011
Don Pangburn	Board Member	2011
Cindy Pangburn	Board Member	2008
Keith Braun	Board Member	2009

School Officials

Tom Nugent	Superintendent	2008
Karen Abrahams	District Secretary/ Treasurer	2008
Ahlers & Cooney	Attorney	2008

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Certified Public Accountants
(a professional corporation)
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Northwood-Kensett Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northwood-Kensett Community School District, Northwood, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Northwood-Kensett Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

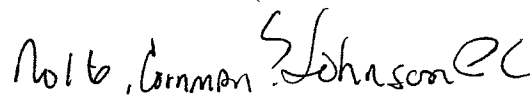
In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2009 on our consideration of Northwood-Kensett Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required

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parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northwood-Kensett Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

January 16, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Northwood-Kensett Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,519,229 in fiscal year 2007 to \$4,903,449 in fiscal year 2008, while General Fund expenditures increased from \$4,330,624 in fiscal 2007 to \$4,623,165 in fiscal 2008. This, along with a sale of equipment and materials of \$1,074, resulted in an increase in the District's General Fund balance from \$667,490 in fiscal 2007 to \$948,848 in fiscal 2008, a 42.15% increase from prior year.
- The increase in General Fund revenues was attributable to allowable growth as allowed by the SBRC, special education deficit allowable growth and an increase in miscellaneous income. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Overall, the District increased net assets in the governmental activities by \$676,311, and increased in the business-type activities by \$17,502, respectively.
- We're in our 11th year of a 20 year Debt Service on New Elementary Construction and Junior/Senior Remodeling Project, which ends in 2017 for \$3,765,000.
- In March of 2004, the District purchased a wind turbine for \$60,000. The purchase was financed by a \$135,000 Energy Loan. One-half of the loan has a 4.38% rate, and the other one-half of the loan is interest free. The turbine remained on the property it was built on. The District has taken out a 26 year lease for \$1,850 per year, which began in July, 2005 and end on July 1, 2031.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Northwood-Kensett Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Northwood-Kensett Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Northwood-Kensett Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Northwood-Kensett Community School District Annual Financial Report

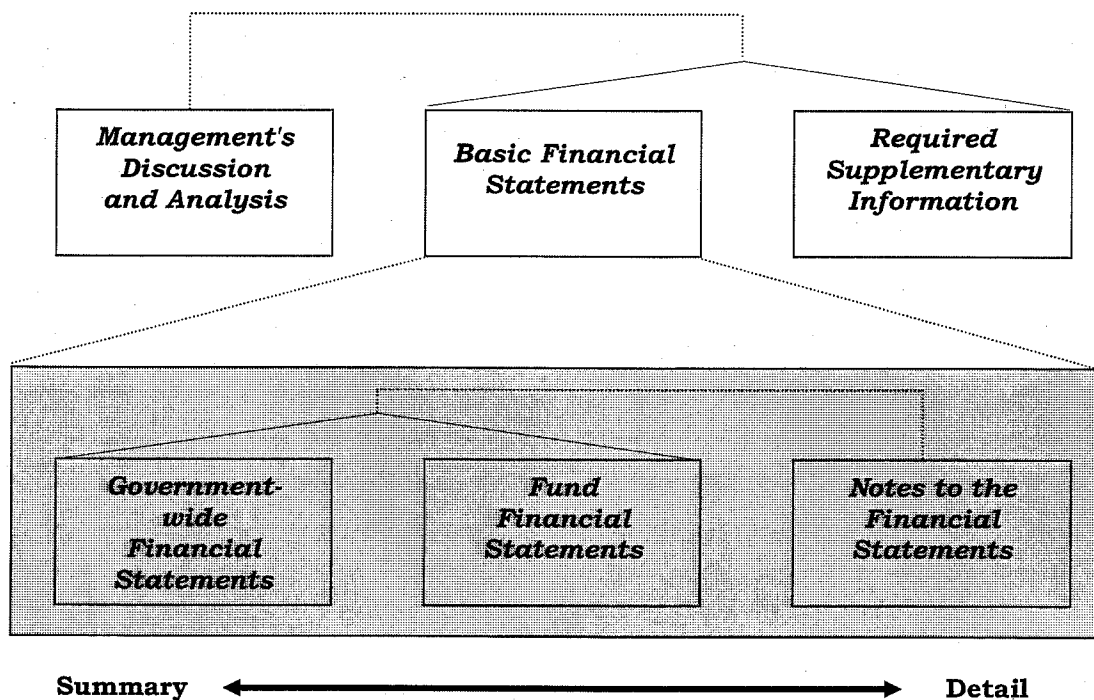


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 4,734,165	4,019,445	50,712	43,999	4,784,877	4,063,444	17.75%
Capital assets	4,211,474	4,034,328	25,166	12,682	4,236,640	4,047,010	4.69%
Total assets	8,945,639	8,053,773	75,878	56,681	9,021,517	8,110,454	11.23%
Long-term obligations	2,252,337	2,460,281	0	0	2,252,337	2,460,281	-8.45%
Other liabilities	2,897,543	2,474,064	3,077	1,382	2,900,620	2,475,446	17.18%
Total liabilities	5,149,880	4,934,345	3,077	1,382	5,152,957	4,935,727	4.40%
Net assets:							
Invested in capital assets, net of related debt	1,987,168	1,608,559	25,166	12,682	2,012,334	1,621,241	24.12%
Restricted	804,861	798,992	0	0	804,861	798,992	0.73%
Unrestricted	1,003,730	711,877	47,635	42,617	1,051,365	754,494	39.35%
Total net assets	\$ 3,795,759	3,119,428	72,801	55,299	3,868,560	3,174,727	21.85%

The District's combined net assets increased by 21.85%, or \$693,833 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$5,869 or 0.73% over the prior year. The increase was primarily a result of the increase in the Capital Projects fund balance.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased \$296,871 or 39.35% over the prior year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to June 30, 2007.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-Type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 234,202	299,005	162,498	163,206	396,700	462,211	-14.17%
Operating grants and contributions and restricted interest	852,370	535,680	89,306	90,660	941,676	626,340	50.35%
Capital grants and contributions and restricted interest	0	13,792	0	0	0	13,792	-100.00%
General revenues:							
Property tax	2,533,361	2,344,166	0	0	2,533,361	2,344,166	8.07%
Local option sales and service tax	296,586	309,125	0	0	296,586	309,125	-4.06%
Unrestricted state grants	2,001,252	1,907,732	0	0	2,001,252	1,907,732	4.90%
Other	80,397	109,637	337	215	80,734	109,852	-26.51%
Total revenues	5,998,168	5,519,137	252,141	254,081	6,250,309	5,773,218	8.26%
Program expenses:							
Governmental activities:							
Instructional	3,378,839	3,245,816	0	0	3,378,839	3,245,816	4.10%
Support services	1,407,905	1,295,737	0	0	1,407,905	1,295,737	8.66%
Non-instructional programs	0	0	234,639	229,687	234,639	229,687	2.16%
Other expenses	535,093	448,287	0	0	535,093	448,287	19.36%
Total expenses	5,321,837	4,989,840	234,639	229,687	5,556,476	5,219,527	6.46%
Change in net assets	676,331	529,297	17,502	24,394	693,833	553,691	25.31%
Net assets beginning of year	3,119,428	2,590,131	55,299	30,905	3,174,727	2,621,036	21.12%
Net assets end of year	\$ 3,795,759	3,119,428	72,801	55,299	3,868,560	3,174,727	21.85%

In fiscal 2008, property tax and unrestricted state grants account for 75.6% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were approximately \$6.25 million of which \$6 million was for governmental activities and \$.25 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 8.26% increase in revenues and a 6.46% increase in expenses. The increase in expenses was related to the increases in the negotiated salary and benefits.

Governmental Activities

Revenues for governmental activities were \$5,998,168 and expenses were \$5,321,837.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 3,378,839	3,245,816	4.10%	2,567,374	2,581,697	-0.55%
Support services	1,407,905	1,295,737	8.66%	1,311,210	1,295,222	1.23%
Other expenses	535,093	448,287	19.36%	356,681	264,444	34.88%
Totals	<u>\$ 5,321,837</u>	<u>4,989,840</u>	<u>6.65%</u>	<u>4,235,265</u>	<u>4,141,363</u>	<u>2.27%</u>

For the year ended June 30, 2008:

- The cost financed by users of the District's programs was \$234,202.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$852,370.
- The net cost of governmental activities was financed with \$2,533,361 in property tax, \$296,586 in local option sales and services tax, \$2,001,252 in unrestricted state grants and \$35,856 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$252,141 and expenses were \$234,639. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Northwood-Kensett Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,746,816, above last year's ending fund balances of \$1,462,273. However, the primary reason for the increase is due to the District's controlled spending in the General Fund.

Governmental Fund Highlights

- The District's General Fund financial position changed from \$667,490 to \$948,848. This was due to the controlled spending by the District. Expenditure for the year only increased \$292,541, while revenues increased \$383,012. The revenues still exceeded expenditures by \$281,358 to ensure the increase in the fund balance.
- The District continued receiving local option sales and service tax from Worth County, which resulted in an increase in the revenues. The Capital Projects Fund transferred \$140,908 to

the Debt Service during the year for debt relief. This transfer and the increase in expenditures during the year allowed the fund balance to decrease by \$103,872.

- The Special Revenue, Management Levy fund balance increased from \$156,786 to \$254,858, due to the increase in revenues during the current year.

Proprietary Funds Highlights

The School Nutrition Fund net assets increased from \$55,299 at June 30, 2007 to \$72,801 at June 30, 2008, representing an increase of 31.65%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$146,856 more than budgeted revenues, a variance of 2.4%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the Districts practice, the certified budget was exceeded in the other expenditures function.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$4,236,640, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$267,727.

The original cost of the District's capital assets was \$8,137,906. Governmental funds account for \$8,023,788 with the remainder of \$114,118 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District's buildings totaled \$3,608,161 at June 30, 2007 compared to \$3,756,225 at June 30, 2008. The increase was due to purchases for building improvements.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 36,425	36,425	0	0	36,425	36,425	0.00%
Construction in Progress	110,014	0	0	0	110,014	0	100.00%
Buildings	3,756,225	3,608,161	0	0	3,756,225	3,608,161	4.10%
Improvements other than buildings	126,004	184,289	0	0	126,004	184,289	-31.63%
Machinery and equipment	182,806	205,453	25,166	12,682	207,972	218,135	-4.66%
Total	\$ 4,211,474	4,034,328	25,166	12,682	4,236,640	4,047,010	4.69%

Long-Term Debt

At June 30, 2008, the District had \$2,252,337 in other long-term debt outstanding. This represents a decrease of 8.5% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$2,200,000 at June 30, 2008.

The District had total energy capital loan notes payable from the Special Revenue, Physical Plant and Equipment Levy of \$24,306 at June 30, 2008.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$17,178 at June 30, 2008.

Also, the District had compensated absences of \$10,853 at June 30, 2008, which is a decrease of 38.4% from the prior year.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General obligation bonds	\$ 2,200,000	2,390,000	-7.9%
Capital loan notes	24,306	35,769	-32.0%
Early retirement	17,178	16,898	1.7%
Compensated absences	10,853	17,614	-38.4%
Totals	\$ 2,252,337	2,460,281	-8.5%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The voters of Worth County passed the Local Option Sales and Services in 2004. This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings, purchasing equipment and debt repayment.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karen Abrahams, District Secretary and Business Manager, Northwood-Kensett Community School District, 1200 1st Avenue North, P.O. Box 289, Northwood, Iowa, 50459-0289.

BASIC FINANCIAL STATEMENTS

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 1,728,950	47,328	1,776,278
Receivables:			
Property tax:			
Delinquent	46,686	0	46,686
Succeeding year	2,711,078	0	2,711,078
Income surtax	98,855	0	98,855
Accounts	3,815	0	3,815
Due from other governments	144,781	0	144,781
Inventories	0	3,384	3,384
Capital assets, net of accumulated depreciation (Note 4)	4,211,474	25,166	4,236,640
Total Assets	8,945,639	75,878	9,021,517
Liabilities			
Accounts payable	175,718	981	176,699
Salaries and benefits payable	1,698	114	1,812
Accrued interest payable	9,049	0	9,049
Deferred revenue:			
Succeeding year property tax	2,711,078	0	2,711,078
Unearned revenue	0	1,982	1,982
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds payable	200,000	0	200,000
Energy loan notes payable	11,917	0	11,917
Early retirement payable	5,424	0	5,424
Compensated absences payable	10,853	0	10,853
Portion due after one year:			
General obligation bonds payable	2,000,000	0	2,000,000
Energy loan notes payable	12,389	0	12,389
Early retirement payable	11,754	0	11,754
Total Liabilities	5,149,880	3,077	5,152,957
Net Assets			
Invested in capital assets, net of related debt	1,987,168	25,166	2,012,334
Restricted for:			
Beginning teacher mentoring	24	0	24
Salary improvement program	6,018	0	6,018
Additional teacher contract day	2,100	0	2,100
Professional development	8,400	0	8,400
Market factor	3,807	0	3,807
Market factor incentive	3,722	0	3,722
Management levy	237,680	0	237,680
Physical plant and equipment levy	103,501	0	103,501
Capital projects	311,885	0	311,885
Debt service	41,066	0	41,066
Other special revenue purposes	86,658	0	86,658
Unrestricted	1,003,730	47,635	1,051,365
Total Net Assets	\$ 3,795,759	72,801	3,868,560

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,075,538	73,017	527,629	(1,474,892)	0	(1,474,892)
Special instruction	738,386	34,188	26,946	(677,252)	0	(677,252)
Other instruction	564,915	126,997	22,688	(415,230)	0	(415,230)
	3,378,839	234,202	577,263	(2,567,374)	0	(2,567,374)
Support services:						
Student services	90,615	0	0	(90,615)	0	(90,615)
Instructional staff services	179,418	0	0	(179,418)	0	(179,418)
Administration services	524,524	0	0	(524,524)	0	(524,524)
Operation and maintenance of plant services	393,817	0	95,977	(297,840)	0	(297,840)
Transportation services	219,531	0	718	(218,813)	0	(218,813)
	1,407,905	0	96,695	(1,311,210)	0	(1,311,210)
Other expenditures:						
Facilities acquisitions	83,882	0	0	(83,882)	0	(83,882)
Long-term debt interest	117,768	0	0	(117,768)	0	(117,768)
AEA flowthrough	178,412	0	178,412	0	0	0
Depreciation(unallocated)*	155,031	0	0	(155,031)	0	(155,031)
	535,093	0	178,412	(356,681)	0	(356,681)
Total governmental activities	5,321,837	234,202	852,370	(4,235,265)	0	(4,235,265)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	234,639	162,498	89,306	0	17,165	17,165
Total business-type activities	234,639	162,498	89,306	0	17,165	17,165
Total	\$ 5,556,476	396,700	941,676	(4,235,265)	17,165	(4,218,100)
General Revenues:						
Property tax levied for:						
General purposes				\$ 2,206,442	0	2,206,442
Capital outlay				160,479	0	160,479
Debt service				166,440	0	166,440
Local option sales and services tax				296,586	0	296,586
Unrestricted state grants				2,001,252	0	2,001,252
Unrestricted investment earnings				35,856	337	36,193
Other				44,541	0	44,541
Total general revenues				4,911,596	337	4,911,933
Changes in net assets				676,331	17,502	693,833
Net assets beginning of year				3,119,428	55,299	3,174,727
Net assets end of year				\$ 3,795,759	72,801	3,868,560

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Capital Projects	Special Revenue- Management Levy	Other Nonmajor Governmental Funds	Total
Assets					
Cash and pooled investments	\$ 962,152	280,502	249,505	236,791	1,728,950
Receivables:					
Property tax					
Delinquent	36,437	0	3,912	6,337	46,686
Succeeding year	2,099,485	0	265,000	346,593	2,711,078
Income surtax	98,855	0	0	0	98,855
Accounts	3,815	0	0	0	3,815
Due from other governments	36,324	107,016	1,441	0	144,781
Total Assets	\$ 3,237,068	387,518	519,858	589,721	4,734,165
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 88,182	75,633	0	11,903	175,718
Salaries and benefits payable	1,698	0	0	0	1,698
Deferred revenue:					
Succeeding year property tax	2,099,485	0	265,000	346,593	2,711,078
Income surtax	98,855	0	0	0	98,855
Total liabilities	2,288,220	75,633	265,000	358,496	2,987,349
Fund balances:					
Reserved for:					
Beginning teacher mentoring	24	0	0	0	24
Salary improvement program	6,042	0	0	0	6,042
Additional teacher contract day	2,100	0	0	0	2,100
Professional development	8,400	0	0	0	8,400
Market factor	3,807	0	0	0	3,807
Market factor incentive	3,722	0	0	0	3,722
Debt service	0	0	0	41,066	41,066
Unreserved	924,777	311,885	254,858	190,159	1,681,679
Total fund balances	948,848	311,885	254,858	231,225	1,746,816
Total Liabilities and Fund Balances	\$ 3,237,068	387,518	519,858	589,721	4,734,165

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2008

Total fund balances of governmental funds (page 15)	\$ 1,746,816
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	4,211,474
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	98,855
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(9,049)
Long-term liabilities, including general obligation bonds payable, capital loan notes payable, early retirement payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,252,337)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 3,795,759</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Capital Projects	Special Revenue- Management Levy	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 2,000,201	296,587	200,340	326,918	2,824,046
Tuition	107,205	0	0	0	107,205
Other	209,306	1,525	23,796	238,229	472,856
State sources	2,449,618	0	128	222	2,449,968
Federal sources	137,119	0	0	0	137,119
Total revenues	4,903,449	298,112	224,264	565,369	5,991,194
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	1,929,194	57,065	69,349	1,060	2,056,668
Special instruction	738,386	0	0	0	738,386
Other instruction	423,407	0	0	141,508	564,915
	3,090,987	57,065	69,349	142,568	3,359,969
Support services:					
Student services	90,615	0	0	0	90,615
Instructional staff services	179,418	0	0	0	179,418
Administration services	482,839	0	41,685	0	524,524
Operation and maintenance of plant services	384,701	0	2,430	0	387,131
Transportation services	216,193	0	12,728	0	228,921
	1,353,766	0	56,843	0	1,410,609
Other expenditures:					
Facilities acquisitions	0	204,011	0	234,695	438,706
Long-term debt:					
Principal	0	0	0	201,463	201,463
Interest	0	0	0	118,566	118,566
AEA flowthrough	178,412	0	0	0	178,412
	178,412	204,011	0	554,724	937,147
Total expenditures	4,623,165	261,076	126,192	697,292	5,707,725
Excess(deficiency) of revenues over(under) expenditures	280,284	37,036	98,072	(131,923)	283,469
Other financing sources(uses):					
Transfer in	0	0	0	153,787	153,787
Transfer out	0	(140,908)	0	(12,879)	(153,787)
Sale of equipment and materials	1,074	0	0	0	1,074
Total other financing sources(uses)	1,074	(140,908)	0	140,908	1,074
Net change in fund balances	281,358	(103,872)	98,072	8,985	284,543
Fund balance beginning of year	667,490	415,757	156,786	222,240	1,462,273
Fund balance end of year	\$ 948,848	311,885	254,858	231,225	1,746,816

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds (page 17) \$ 284,543

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of current depreciation, loss on disposal of assets, and capital outlay expenditures in the current year, are as follows:

Depreciation expense	\$ (264,542)	
Loss on disposal of assets	(53,620)	
Capital outlays	495,308	177,146

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		5,900
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	(280)	
Compensated absences	6,761	6,481

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		201,463
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

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Changes in net assets of governmental activities (page 14)	\$ 676,331	
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SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	<u>School Nutrition</u>
Assets	
Current assets:	
Cash and pooled investments	\$ 47,328
Inventories	3,384
Capital assets, net of accumulated depreciation (Note 4)	<u>25,166</u>
Total Assets	<u>75,878</u>
Liabilities	
Accounts payable	981
Salary and benefits payable	114
Unearned revenues	<u>1,982</u>
Total Liabilities	<u>3,077</u>
Net Assets	
Invested in capital assets	25,166
Unrestricted	<u>47,635</u>
Total Net Assets	<u>\$ 72,801</u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for service	<u>\$ 162,498</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	68,398
Benefits	22,247
Services	8,781
Supplies	131,165
Depreciation	3,185
Other	863
TOTAL OPERATING EXPENSES	<u>234,639</u>
OPERATING LOSS	<u>(72,141)</u>
NON-OPERATING REVENUES:	
State sources	2,937
Federal sources	86,369
Interest income	337
TOTAL NON-OPERATING REVENUES	<u>89,643</u>
Net income	17,502
Net assets beginning of year	<u>55,299</u>
Net assets end of year	<u><u>\$ 72,801</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 170,460
Cash received from miscellaneous operating activities	651
Cash payments to employees for services	(90,531)
Cash payments to suppliers for goods or services	(125,116)
Net cash used in operating activities	<u>(44,536)</u>
Cash flows from non-capital financing activities:	
State grants received	2,937
Federal grants received	72,658
Net cash provided by non-capital financing activities	<u>75,595</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(15,669)</u>
Cash flows from investing activities:	
Interest on investment	<u>337</u>
Net increase in cash and cash equivalents	15,727
Cash and cash equivalents at beginning of year	<u>31,601</u>
Cash and cash equivalents at end of year	<u>\$ 47,328</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (72,141)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	13,711
Depreciation	3,185
Decrease in inventories	1,231
Decrease in accounts receivable	7,783
Increase in accounts payable	751
Increase in salaries and benefits payable	114
Increase in unearned revenue	830
Net cash used in operating activities	<u>\$ (44,536)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and investments	<u>\$ 47,328</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received Federal commodities valued at \$13,711.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2008

		Private Purpose Trust Scholarship
Assets		
Cash and pooled investments	\$	349,811
Accounts receivable		1,143
Total Assets	\$	350,954
Net Assets		
Restricted for scholarships	\$	329,280
Unrestricted		21,674
Total Net Assets	\$	350,954

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2008

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest	\$ 14,763
Deductions:	
Scholarships	18,398
Loss before other financing uses	(3,635)
Other financing uses:	
Unrealized loss	(2,478)
Change in net assets	(6,113)
Net assets beginning of year	357,067
Net assets end of year	\$ 350,954

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(1) **Summary of Significant Accounting Policies**

The Northwood-Kensett Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Northwood and Kensett, Iowa, and the predominate agricultural territory in Worth County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Northwood-Kensett Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Northwood-Kensett Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Worth County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Special Revenue - Management Fund is utilized to account for the payment of property insurance and early retirement benefits.

The District's proprietary fund is the School Nutrition Fund. The Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board

Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on

January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 0
Buildings	2,000
Land improvements	2,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20-50 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized

since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures in the other expenditures function exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2008 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The District's investments are all category 1 which means that the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Investments are stated at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates.

The District's investments at June 30, 2008, are as follows:

Type	Fair Value
Corporate bonds	\$ 91,810

At June 30, 2008, the District had investments in certificates of deposit, stated at fair value, maturing over a year as follows:

Type	Fair Value
Certificates of Deposit	\$ 69,750

(3) Transfers

The detail of transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Physical Plant and Equipment Levy	\$ 12,879
Debt Service	Capital Projects	140,908
Total		\$ 153,787

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 36,425	0	0	36,425
Construction in Progress	0	110,014	0	110,014
Total capital assets not being depreciated	36,425	110,014	0	146,439
Capital assets being depreciated:				
Buildings	5,876,335	301,252	0	6,177,587
Land improvements	224,423	0	56,442	167,981
Machinery and equipment	1,480,052	84,042	32,313	1,531,781
Total capital assets being depreciated	7,580,810	385,294	88,755	7,877,349
Less accumulated depreciation for:				
Buildings	2,268,174	153,188	0	2,421,362
Land improvements	40,134	4,665	2,822	41,977
Machinery and equipment	1,274,599	106,689	32,313	1,348,975
Total accumulated depreciation	3,582,907	264,542	35,135	3,812,314
Total capital assets being depreciated, net	3,997,903	120,752	53,620	4,065,035
Governmental activities capital assets, net	\$ 4,034,328	230,766	53,620	4,211,474

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 98,449	15,669	0	114,118
Less accumulated depreciation	85,767	3,185	0	88,952
Business-type activities capital assets, net	\$ 12,682	12,484	0	25,166

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 41,638
Support services:	
Operation and maintenance of plant	6,686
Transportation	58,365
	106,689
Unallocated depreciation	157,853
Total governmental activities depreciation expense	\$ 264,542
Business-type activities:	
Food services	\$ 3,185

(5) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,390,000	0	190,000	2,200,000	200,000
Energy capital loan notes	35,769	0	11,463	24,306	11,917
Early retirement	16,898	25,214	24,934	17,178	5,424
Compensated absences	17,614	10,853	17,614	10,853	10,853
Total	<u>\$ 2,460,281</u>	<u>36,067</u>	<u>244,011</u>	<u>2,252,337</u>	<u>228,194</u>

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue of May 1, 1998		
		Principal	Interest	Total
2009	5.35	% \$ 200,000	107,630	307,630
2010	5.45	210,000	98,030	308,030
2011	5.50	220,000	87,950	307,950
2012	5.55	230,000	77,390	307,390
2013	5.60	245,000	66,235	311,235
2014-2017	5.65-5.80	1,095,000	139,465	1,234,465
Total		<u>\$ 2,200,000</u>	<u>576,700</u>	<u>2,776,700</u>

Energy Capital Loan Notes Payable

The District issued \$90,000 and \$135,000 of Energy Management Capital Loan Notes during the year ended June 30, 2003 and 2004. The proceeds from the loan were used to implement an energy conservation program and purchase a wind turbine. The first \$90,000 of notes bear interest at 3.96%, the second \$67,500 of notes bear interest at 4.38% and the third \$67,500 of notes are interest free. The second and third series were paid off during the year ended June 30, 2007. The final payment on the first series is in 2010. The first series principal and interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. The note payable is as follows:

Year ended June 30,	Series 1		
	Principal	Interest	Total
2009	\$ 11,917	963	12,880
2010	12,389	491	12,880
Total	<u>\$ 24,306</u>	<u>1,454</u>	<u>25,760</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must reach the age of fifty-five on or before June 30 of the year the certified employee wishes to retire and must have completed fifteen years of full time service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement incentives are based in the differences between the employee's current base salary and the starting base salary. Early retirement benefits paid during the year ended June 30, 2008, totaled \$24,934. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$172,041, \$153,026 and \$146,671 respectively, equal to the required contributions for each year.

(7) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$178,412 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(9) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2008, expenditures in the other expenditures function exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2008

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 3,404,107	162,835	3,566,942	3,438,439	3,438,439	128,503
State sources	2,449,968	2,937	2,452,905	2,427,634	2,427,634	25,271
Federal sources	137,119	86,369	223,488	230,406	230,406	(6,918)
Total revenues	5,991,194	252,141	6,243,335	6,096,479	6,096,479	146,856
Expenditures:						
Instruction	3,359,969	0	3,359,969	3,512,568	3,512,568	152,599
Support services	1,410,609	0	1,410,609	1,820,783	1,820,783	410,174
Non-instructional programs	0	234,639	234,639	263,562	263,562	28,923
Other expenditures	937,147	0	937,147	859,231	859,231	(77,916)
Total expenditures	5,707,725	234,639	5,942,364	6,456,144	6,456,144	513,780
Excess(deficiency) of revenues over(under) expenditures	283,469	17,502	300,971	(359,665)	(359,665)	660,636
Other financing sources, net	1,074	0	1,074	8,121	8,121	(7,047)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	284,543	17,502	302,045	(351,544)	(351,544)	653,589
Balance beginning of year	1,462,273	55,299	1,517,572	1,441,401	1,441,401	76,171
Balance end of year	\$ 1,746,816	72,801	1,819,617	1,089,857	1,089,857	729,760

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2008, expenditures in the other expenditures function exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL REVENUE FUNDS
 JUNE 30, 2008

	Special Revenue Funds					Total
	Physical			Total		Other
	Plant &	Student	Expendable	Special	Debt	Nonmajor
	Equipment	Activity	Trust	Revenue	Service	Governmental
	Levy					Funds
Assets						
Cash and pooled investments	\$ 112,293	68,097	18,561	198,951	37,840	236,791
Receivables:						
Property tax:						
Current year delinquent	3,111	0	0	3,111	3,226	6,337
Succeeding year	182,563	0	0	182,563	164,030	346,593
Total Assets	\$ 297,967	68,097	18,561	384,625	205,096	589,721
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 11,903	0	0	11,903	0	11,903
Deferred revenue:						
Succeeding year property tax	182,563	0	0	182,563	164,030	346,593
	194,466	0	0	194,466	164,030	358,496
Fund balances:						
Reserved:						
Debt service	0	0	0	0	41,066	41,066
Unreserved	103,501	68,097	18,561	190,159	0	190,159
Total fund balances	103,501	68,097	18,561	190,159	41,066	231,225
Total Liabilities and Fund Balances	\$ 297,967	68,097	18,561	384,625	205,096	589,721

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008

	Special Revenue Funds					Total
	Physical			Total		Other
	Plant and			Special		Nonmajor
	Equipment	Student	Expendable	Revenue	Debt	Governmental
	Levy	Activity	Trust	Funds	Service	Funds
REVENUES:						
Local sources:						
Local tax	\$ 160,479	0	0	160,479	166,439	326,918
Other	96,755	137,374	674	234,803	3,426	238,229
State sources	109	0	0	109	113	222
TOTAL REVENUES	257,343	137,374	674	395,391	169,978	565,369
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	0	0	1,060	1,060	0	1,060
Other instruction	0	141,508	0	141,508	0	141,508
Other expenditures:						
Facilities acquisitions	234,695	0	0	234,695	0	234,695
Long-term debt:						
Principal	0	0	0	0	201,463	201,463
Interest	0	0	0	0	118,566	118,566
TOTAL EXPENDITURES	234,695	141,508	1,060	377,263	320,029	697,292
Excess(deficiency) of revenues over(under) expenditures	22,648	(4,134)	(386)	18,128	(150,051)	(131,923)
OTHER FINANCING SOURCES(USES):						
Transfer in	0	0	0	0	153,787	153,787
Transfer out	(12,879)	0	0	(12,879)	0	(12,879)
TOTAL OTHER FINANCING SOURCES(USES)	(12,879)	0	0	(12,879)	153,787	140,908
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	9,769	(4,134)	(386)	5,249	3,736	8,985
FUND BALANCES BEGINNING OF YEAR	93,732	72,231	18,947	184,910	37,330	222,240
FUND BALANCES END OF YEAR	\$ 103,501	68,097	18,561	190,159	41,066	231,225

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 1,441	573	695	1,319
Speech	843	250	654	439
Vocal music	3,571	1,222	1,108	3,685
Choir robe	1,200	103	0	1,303
High school band	301	1,744	2,045	0
Elementary band	90	0	0	90
High school band uniforms	1,825	516	605	1,736
High school horn rent/repair	739	282	1,021	0
Band trip	6,219	3,400	4,030	5,589
General athletics	0	6,488	6,488	0
Athletic passes	0	20,487	20,487	0
Boys Basketball	0	4,427	4,427	0
Football	0	7,970	10,550	(2,580)
Baseball	0	180	358	(178)
Boys track	0	2,899	2,899	0
LMNK Wrestling	0	5,027	5,027	0
Coop wrestling	7,023	0	7,023	0
Girls basketball	0	3,748	3,748	0
Volleyball	0	2,442	2,442	0
Softball	(1,734)	1,734	0	0
Girls track	0	290	290	0
Girls golf	0	7	7	0
FFA	723	38,408	31,189	7,942
Math Club	0	400	71	329
Honor society	44	716	680	80
High school student council	1,255	679	1,801	133
Student leadership	347	0	0	347
Cheerleaders	1,267	0	1,649	(382)
Junior high cheerleaders	47	0	153	(106)
Spanish club	9,524	14,242	21,851	1,915
FCCLA club	750	1,877	2,475	152
Extreme N-K	364	0	0	364

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Class of 2006	410	0	410	0
Class of 2007	53	0	53	0
Class of 2008	908	346	955	299
Class of 2009	1,745	1,185	2,120	810
Class of 2010	934	1,020	0	1,954
Class of 2011	487	990	25	1,452
Class of 2012	281	360	0	641
Class of 2013	0	430	56	374
Stevens Tech Lab	0	526	0	526
Chip	406	359	234	531
Science projects	136	0	0	136
Student planner	105	0	0	105
HS student of the month	1,061	213	590	684
Beverage machine athletics	27	75	0	102
Yearbook	(5,679)	9,138	1,087	2,372
Pepsi donations	1,591	0	1,031	560
Interest on checking	0	249	249	0
Interest on CD's	0	925	925	0
Elementary activities	460	0	0	460
Band CD	33,467	1,447	0	34,914
Total	\$ 72,231	137,374	141,508	68,097

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2008

	Reuben/Helen Scholarship	Gilbert Cornelius Stevens	Hellen Holstad	Richard Moen	Building Trades	Pheasants Forever	Total
Assets							
Cash and pooled investments	\$ 72,209	88,070	183,582	1,925	3,025	1,000	349,811
Accounts receivable	0	1,143	0	0	0	0	1,143
Total Assets	\$ 72,209	89,213	183,582	1,925	3,025	1,000	350,954
Net Assets							
Restricted for scholarships	\$ 72,209	73,489	183,582	0	0	0	329,280
Unrestricted	0	15,724	0	1,925	3,025	1,000	21,674
Total Net Assets	\$ 72,209	89,213	183,582	1,925	3,025	1,000	350,954

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2008

	Reuben/Helen Scholarship	Gilbert Cornelius Stevens	Hellen Holstad	Richard Moen	Building Trades	Pheasants Forever	Total
Additions:							
Local sources:							
Interest	\$ 2,561	2,905	6,372	1,925	0	1,000	14,763
Deductions:							
Scholarships	6,000	6,000	4,100	1,923	375	0	18,398
Gain(loss)before other financing uses	(3,439)	(3,095)	2,272	2	(375)	1,000	(3,635)
Other financing uses:							
Unrealized loss	(1,525)	(50)	(903)	0	0	0	(2,478)
Change in net assets	(4,964)	(3,145)	1,369	2	(375)	1,000	(6,113)
Net assets beginning of year	77,173	92,358	182,213	1,923	3,400	0	357,067
Net assets end of year	\$ 72,209	89,213	183,582	1,925	3,025	1,000	350,954

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 2,824,046	2,637,136	2,473,383	2,376,421	2,154,280
Tuition	107,205	102,073	72,369	81,471	64,500
Other	472,856	309,594	275,466	242,923	226,566
Intermediate sources	0	0	0	13,093	0
State sources	2,449,968	2,307,226	2,311,952	2,150,064	1,887,359
Federal sources	137,119	149,978	149,419	190,625	200,208
Total	<u>\$ 5,991,194</u>	<u>5,506,007</u>	<u>5,282,589</u>	<u>5,054,597</u>	<u>4,532,913</u>
Expenditures:					
Instruction:					
Regular instruction	\$ 2,056,668	1,958,278	1,824,877	1,744,473	1,882,702
Special instruction	738,386	743,155	669,142	719,381	642,003
Other instruction	564,915	560,747	511,898	473,065	409,380
Support services:					
Student services	90,615	64,307	74,091	133,658	128,773
Instructional staff services	179,418	103,279	96,818	100,568	123,543
Administration services	524,524	538,601	513,783	450,089	427,141
Operation and maintenance of plant services	387,131	391,114	366,725	335,670	323,659
Transportation services	228,921	213,196	197,981	143,065	137,278
Other expenditures:					
Facilities acquisition	438,706	73,987	119,990	192,102	361,474
Long-term debt:					
Principal	201,463	274,895	204,290	225,078	219,167
Interest	118,566	129,451	138,463	149,020	157,512
AEA flowthrough	178,412	170,051	164,998	155,958	151,485
Total	<u>\$ 5,707,725</u>	<u>5,221,061</u>	<u>4,883,056</u>	<u>4,822,127</u>	<u>4,964,117</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Northwood-Kensett Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northwood-Kensett Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 16, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northwood-Kensett Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Northwood-Kensett Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northwood-Kensett Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Northwood-Kensett Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Northwood-Kensett Community School District's financial statements that is more than inconsequential will not be prevented or detected by Northwood-Kensett Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Northwood-Kensett Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

Compliance and Other Matters

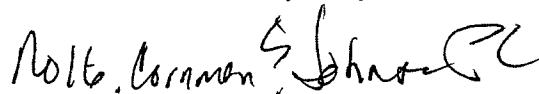
As part of obtaining reasonable assurance about whether Northwood-Kensett Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Northwood-Kensett Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Northwood-Kensett Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Northwood-Kensett Community School District and other parties to whom Northwood-Kensett Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Northwood-Kensett Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

January 16, 2009

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- I-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion - Response accepted.

- I-B-08 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation. We noted during our audit that in some instances there were no detailed receipts for individuals seeking reimbursements for meals.

Recommendation - The District has a policy in place for credit card usage, which states that the users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place with personnel using the district credit cards to ensure the proper detailed documentation will be available with paid credit card statements. The District must maintain supporting documentation for reimbursement or no reimbursement should be made to individuals. The District should review procedures in place to ensure the proper detailed documentation will be available with reimbursements to individuals.

Response - We will comply.

Conclusion - Response accepted.

- I-C-08 Purchase Orders - We noted during our audit of the Special Revenue, Student Activity Fund that most disbursements did not have a purchase order.

Recommendation - Better internal control is achieved when pre-numbered purchase orders are used and the sequence is monitored. The District should review the purchase order system in place. Purchase orders provide approval to order, therefore, pre-numbered purchase orders should be approved by the administrator before the ordering of supplies takes place.

Response - We will make changes as the opportunity arises.

Conclusion - Response accepted.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting

- II-A-08 Certified Budget - District disbursements for the year ended June 30, 2008 exceeded the amount budgeted in the other expenditures program area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

- II-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-08 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jeanette Berge, Special ed aide Spouse owns Berge Oil	Oil/lubricants	\$490
Robin Fredericks, Bus driver & Aide Rose Fredericks, Teacher Associate Spouses co-owns A&I Auto	Tires & Repairs	\$2,771
Tom Sculley, Bus driver Terri Sculley, Aide Owns Village Florist	Supplies	\$128
Brian Campbell, Teacher Owns Soup's Pizzeria & Grill	Pizza	\$246

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the spouse of Jeanette Berge, Rose Fredericks and Robin Fredericks do not appear to represent a conflict of interest.

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transactions with Brian Campbell, and Tom and Terri Sculley do not appear to represent a conflict of interest.

- II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-08 Certified Enrollment - We noted that the number of basic resident student reported to the Iowa Department of Education on line 1 of the Certified Enrollment Certification Form for October 2007 was overstated by 1 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted

II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-J-08 Financial Condition - During our audit we noted that the District had negative account balances in the Student Activity Fund.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate the deficit.

Response - The District will continue to monitor these accounts and investigate alternatives to eliminate the deficit.

Conclusion - Response accepted.